1812

1921

Economic Conditions
Governmental Finance
United States Securities

New York, January, 1921.

The World Situation.

THE second year following the Armistice did not bring the degree of industrial recovery and social recuperation among the peoples of Europe which had been hoped for. Conditions over the greater part of the continent are still in great confusion, and over much of it even more distressing than a year ago. There are, however, some signs of progress toward order and better things. The war between Poland and Russia has left deplorable results in the desolation of territory and destitution of great numbers of people, but although there are misgivings in some quarters of more hostilities on the Russian frontier, for the present peace is established in Europe, except for the trouble that Italy is having with some of her own excessively zealous patriots over the terms of her agreement with Jugo-Slavia. The consummation of this agreement between the responsible authorities of the two countries may be counted one of the important accomplishments of the year.

Russia.

Within Russia the authorities at Moscow now have no armed or organized opposition, and may go ahead in their own way to revive the productive industries of that vast territory. If they can produce a surplus of foodstuffs and of the raw materials which western Europe needs, and deliver them at the coast or any of the country's boundaries, it is not likely that they will be seriously hampered by inability to trade them for the products of other countries. The ambitions of the Bolsheviki to convert the world to their peculiar beliefs will be best served by demonstrating the virtues of their system in practical operations at home.

Austria and the Balkans.

Conditions in Austria are desperately bad, due fundamentally to the political severance of Vienna from the territory of which it has been the industrial and commercial, as well as political, center. The immediate problem is to get the population of Vienna through the winter.

Hungary, Roumania, Bulgaria and Jugo-Slavia are largely agricultural territory and although struggling with Treasury deficits, hard times, and insufficient supplies of many kinds, have not the more difficult problem of providing for great city populations.

Italy.

Italy has quieted her most alarming disorders. The new Labor Board which is to be established will be for the purpose of accomplishing conciliation, but is not revolutionary in character. The Treasury is in improved condition as a result of new taxation; the revenues in October are reported as three times those of October, 1919. In the first nine months of 1920 imports decreased 576,000,000 lire and exports increased 1,762,000,000. The note circulation of the Bank of Italy on October 10 was 15,238,000,000 lire, against 14,445,000,000 a year before, and 1,556,000,000 in 1914. With the increased revenues this inflation should cease.

Poland.

Poland has been prostrated by the struggle with Russia. The industrial and financial situation is very bad, with the currency depreciated almost to the vanishing point by the enormous issues of the past year. Although the country is normally more than self-supporting in food production, it requires importations this year, and needs help to cope with epidemics of disease both among the people and farm animals. Although united in antagonism to Russian Bolshevism the people are very much inclined to socialism, and their experiments in the state management of industries have added enormously to the confusion and distress. In a recent lecture at Warsaw Professor Globinski, an economist of standing, stated that the country had 410,000 civil officials and that including the army the burdens of government were overwhelming. He said that the state railways have five times as many employes per kilometer as the roads of western Europe. The change of the land laws at this time is not conducive to increased production.

Czecho-Slovakia.

In Czecho-Slovakia the Minister of Finance has recently promised that the Budget for the ensuing year will balance, although it is not altogether encouraging that the principal burdens are said to be for social and military projects. Socialism is strong here also, and the chief difficulty with which the industries have to contend at this time is the lack of coal, which is aggravated by schemes for the socialization of the coal industry. The mines were gutted during the war and require large expenditures for development, which are held up pending a determination of what shall be done with the industry. Vienna is mainly dependent on these mines and a shortage of coal is the chief drawback of all Europe.

Germany.

Germany is still in an unsettled and agitated state. The crops of 1920 were not good, there is need to import food and raw materials but the exports are insufficient to pay for them. The industries are not working at a rate sufficient to provide for even the needs of the German people, to say nothing of paying indemnities. The revenues of the government are far short of what is required to meet its expenditures, and the deficit is met by printing money, which demoralizes the currency and foreign exchanges and aggravates all the disorders. The railroads, all of which have been taken over by the Federal government, are running steadily behind and are a heavy burden on the public treasury. A lack of coal hampers the industries, but in this respect there has been some improvement recently—the most hopeful sign of the year.

Overshadowing every other problem in importance is the question of indemnities. Recent proceedings of the Reparation Commission have afforded ground for expectation that the amount of the indemnities will be definitely fixed, and at a sum which will encourage the German people to energetically undertake the task of payment. At present the situation in Germany is very gloomy, and it affects the entire European and world situation.

Belgium and France.

In Belgium and France substantial progress in industrial recovery has been made. In Belgium production was back on the whole at about pre-war volume, before the present depression came on. France has done much in rebuilding the devastated territory and in getting the crippled industries into operation. Her industrial output has increased, and the adverse balance of trade has been largely reduced. The Temps of November 22 gave the value of imports for ten months as 29,784,000,000 francs, against 27,397,000,000 in 1919, and exports as 18,890,000,000, against 7,733,000,000. France shows many evidences of progress, convincing to the world and cheering to her own people. Among them may be mentioned the payment of $150,000,000 to the United States. A new internal loan has been floated recently, to which subscriptions, including certain conversion privileges, aggregate 50,000,000,000 francs, and by the aid of this the government has been able to reduce its indebtedness to the Bank of France to such an extent that the note circulation of this institution is lower than it was a year ago. In France also production of coal is increasing.

Great Britain.

Great Britain has passed through a strenuous year, with grave disorders in Ireland and almost equally grave labor problems. The former are more acute at the moment, but the latter are more fundamental. The coal strike was an exceedingly threatening menace, involving as it did a challenge to the government and a covert demand for the nationalization of the coal industry. It was settled, however, with the intelligent co-operation of influential labor leaders, and this is the most reassuring sign in the British industrial situation. The representatives of British labor and British socialism who visited Russia during the year, in every noteworthy instance, reported against the adoption of the Soviet policies by British workingmen.

Despite the difficulties in industry, the revenues of the British Treasury have more than met expenditures since the beginning of the fiscal year, April 1, 1920, enabling substantial payments to be made upon indebtedness. The government has stated that by the end of the fiscal year all the war subsidies will be abolished. At the close of 1919, the government announced that the outstanding issue of exchequer currency notes, above cash reserves, would not be permitted to exceed £320,600,000 in the year 1920. This pledge has been observed, the excess on December 1 being £303,854,000, and the percentage of reserve 13.5, against 9.1 at the close of 1919. The gold stock of the Bank of England on December 1 was £124,991,291, against £91,790,369 on that date of 1919. During the eleven months to the end of November, the adverse balance in foreign trade was reduced about $600,000,000. In actual accomplishments therefore Great Britain has notably improved her situation during the past year.

The Industrial Depression.

We have mentioned above only the countries of Europe which were involved in the war. They all suffered terrible losses in manhood and capital, and are suffering by the disorganization of their industries. The latter source of loss is due in part to the war, but

even more to the agitation which seeks to overthrow the existing social order.

The effects of this disorganization of Europe are felt throughout the world. Europe was the center of the world's industrial organization, a great market for the products of all other quarters of the globe. The equilibrium which formerly existed in the world's industries is disturbed by the inability of Europe to trade as formerly. The people need clothing, but they cannot buy cotton or wool. They need the metals, copper, lead and zinc, but cannot buy them. They would like to have meats but have not the means of payment.

The spurt of activity which followed the Armistice could not be sustained, and has been succeeded by a state of depression in all countries. A cable despatch from Geneva, Switzerland, the seat of the League of Nations, dated December 22, says:

From every part of Europe, from old countries and new, and even from Asia, reports arrive of unrest and disturbance, of commercial crises, unemployment and inability to sell products, together with the greatest need of such products.

Lloyd George on the Situation.

The Premier of Great Britain, Lloyd George, in a public address, recently, described the situation as follows, in part:

Now the first thing we have got to get into our minds is this: The cause is not peculiar to our country. It is something that affects the whole world. It is not an atmospheric depression that affects one degree, one coast, one country; it girdles the earth—the United States of America, Japan, China, India, France, Italy, Germany, as well as the United Kingdom. The whole world is suffering from it. Now it is important when you come to think of remedies to get that fundamental fact into your minds—(hear, hear)—so that we should not run into remedies that may be applicable to one country and not to another.

For instance, countries with totally different economic systems are suffering alike—Protectionist countries, Free Trade countries, countries with good Governments and with bad Governments—(laughter)—countries whose Governments, in the eyes of Lord Northcliffe, can do no wrong, and countries whose Governments, in his lordship's clear eye, can never do right. (Laughter.) They all suffer alike. It is raining on the just and the unjust without stint. And Socialistic countries are suffering just like those wretched individualists are suffering. The working classes are more wretched where the sun of liberty is shining upon them under the ægis of Lenine and Trotzky than they are in this benighted country, where they are locked up in the dungeons of capitalism.

I got figures from the Board of Trade this afternoon of what we sold to Europe before the war. We sold from this country, most of it our own products, but we got a profit on even what passed through—we sold 246 millions' worth of goods. At present prices, I am told, that would be about 600 millions, probably more.

Where is that trade now? Our customers are impoverished, bankrupt. I am not sure about borrowing. The printing press may save you for a time, but you cannot always carry a sack of paper on your backs. That is what is happening in Europe. They cannot get on without it, and when they buy they cannot pay. Have you ever seen the spectacle of a man in rags, down at heels, standing in front of a shop window looking at clothes and boots of the latest fashions? And you say why does he not buy, he is in rags, he needs them, why does he not go in the shop? He cannot pay.

Europe is standing in front of our shop windows, stocked with the best goods that any land can turn out. And it is in rags and wants to buy. But its pockets are full of paper. It cannot buy. And until a customer is in a condition to trade with you we must admit it. Do not let us work up pretended causes; let us get at realities. Britain has got to work its way back to a full purse, and until it does that, nothing that Governments can do, nothing that federations can do, and nothing that newspaper articles can do can help us. (Cheers.)

What are the remedies? The first is peace. Europe cannot work its way back to prosperity unless it has peace. Europe must work with both hands. (Applause.) She cannot handle the sword and the trowel. I cannot stand those men who are constantly blowing on the embers of the fire. Stamp out those who are going about with petrol-tins to start fresh fires. (Applause.)

That speech might have been made as appropriately in the United States. When the truth it sets forth is comprehended, all the people will be in better state of mind to set about repairing their fortunes. The first thing is to know that their misfortunes are not due to a conspiracy among grain speculators, or on the cotton exchange, or in Wall Street. All commodities and all markets are involved, and it cannot be supposed that commodities traded in all over the world could be sustained in price in the United States when they were falling everywhere else.

General Business Situation.

The general business situation has exhibited during the past month the same trend that was manifest in October and November, and will have to run its course until readjustments are accomplished. It cannot stop with the industries in an unbalanced situation, part of them down to approximately a pre-war basis and part of them on the war basis. Either the former must recover the position they have lost, or the latter must come down to the new level, and the present situation is not promising for price recoveries.

Bradstreet's table of wholesale prices on December 1 was down 34.7 per cent from the top in February. Bradstreet's figures by groups, are as follows:

Commodity	% decline from peak.
Textiles (including raw materials)	54.2
Breadstuffs	28.
Live stock	19.5
Provisions	13.8
Hides and leather	33.2
Metals	33.6
Vegetable oils	34.2
Naval stores	49.5
Miscellaneous	50.4

It is interesting to note how general are the declines, and that farm products are not the only ones affected. As a rule raw materials fall faster than finished goods, because the element of wages is larger in the latter, and wages decline more slowly than any other factor in prices.

Bradstreet's index of foodstuffs on December 16 showed a decline of 31.5 per cent from the corresponding week of 1919.

The declines in the principal staples have been less in recent weeks, indicating that they have about reached bottom, while other commodities are now following and coming into line with them. This is the logical and usual procedure of readjustment.

Results of Unsettlement.

Of course this state of unsettlement is unfavorable to industry. Retail merchants have been buying only to sort up their stocks, jobbers have run down their stocks, orders for goods have been cancelled in great numbers, and manufacturing establishments have slowed down production or shut down completely. Some of them have been running part time, and accumulating goods, to hold their organizations together and afford some earnings to their employes, but such operations are without hope of profit, and at the risk of serious losses in a time like the present, when costs are likely to be reduced in the near future. The operations of an important industry run into values very fast, and few companies are strong enough to keep up their outgo for very long unless the goods are moving and producing an income. Moreover, it would be ruinous to do so on a declining market.

It is unfortunate to have production curtailed, because the fundamental need of society is for more goods, but when industry gets out of balance and goods cannot be distributed, a temporary slowing down, during the period of readjustment, is unavoidable.

Causes of Industrial Reaction.

These periods of reaction come as a result of industrial derangement, or in other words, from the industrial organization getting out of balance. We have often remarked that the modern organization by which society supplies its wants is a very complicated one. It is an organization of specialists, each in his own field, doing the work he has chosen for himself, and exchanging products and services with the others. It is a wonderfully effective organization when in balance, with every branch of industry working approximately at capacity, but if anything happens to throw it out of balance it is possible to have millions of people unable to buy the products of others, because they cannot sell their own.

The war disturbed the normal situation, and for nearly a year after it broke out industry was at low ebb in this country. The winter of 1914-15 was as bad in the state of unemployment as this one threatens to be. Cotton is thought to be selling at distress prices now, but it was selling then at less than one-half present prices. The steel industry, then much below present capacity, went down to about 35 per cent of capacity, and other industries suffered in like manner.

As the war went on, industry was adapted to it, and an enormous demand for labor and products developed; credits were inflated, and wages and prices were carried so far away from normal standards that many people thought normal conditions would never return. It was hastily assumed that we had entered upon a new world in which everything was going to be radically different from what it had been in the past. We are beginning to learn that there was a great deal of error in those assumptions.

Buying Power Fell Behind.

During the period of advance, although there were many people whose incomes did not keep pace with the general movement, the situation remained for a time fairly well in balance, but as the advances continued, the buying power of important sections of the population, especially in other countries, fell behind. The American farmer felt it first in the lessened demand from abroad for his meats; then came the slackening demand for cotton and woolen goods in all countries, the laying off of textile workers, the heavy fall in prices of raw cotton and wool, and then the drop in grains and other commodities. The situation became so completely unbalanced that a general readjustment was necessary.

The Condition of Recovery.

As we have often repeated, it is fundamental in a highly organized society, where all the industries are interdependent, that there shall be a free, full circulation, or exchange, of products. The purchasing power of every branch of industry is in its own products, and since the exchanges are effected by the use of money it is necessary that the prices of all products shall rise or fall approximately together; otherwise the basis of trade will be altered, trade cannot go on, and the whole organization will be disrupted. There must be a fair and approximately stable basis of exchange. In normal times it works out that the products of the different industries exchange about on the basis of the amount of labor in them, subject to differences due to the amount of skill, training, ability, etc., required in the various occupations. There may be tendencies at work gradually modifying the basis of the exchanges without disrupting the situation, but there cannot be a sudden change in the compensation or buying power of great bodies of the population without seriously affecting all branches of industry and business.

The above describes the situation with which this country and the civilized world has to deal, for not only is there a serious disturbance

in the relations between our own industries but an abnormal situation as between this country and other countries.

The Balance Must be Restored.

We cannot look for a restoration of full employment and prosperity until something like the old balance between agriculture and the other industries is restored. If there was any prospect of a rise in the prices of farm products, it might be argued that the balance would be restored in that way, but there is little basis for such expectation. The prices of our farm products are dependent upon the prices at which the surplus can be sold in foreign markets. To cut down our production for the purpose of raising prices would be an attempt to sustain prices on an artificial basis, a basis of scarcity. The farmer would have less to sell, and the attempt at curtailment would check the decline in the cost of living and the downward tendency of costs in the other industries, with the result that the farmer would continue to pay high prices for everything he bought. The remedy does not lie that way, but in bringing the prices of other things down to the level of farm products. When a bushel of wheat, a bale of cotton and a pound of pork will buy as many goods in the stores as in 1919, the farmer will be able to resume his position in the trading circle; not before.

More Than a Farmer's Problem.

Let nobody think this is the farmer's problem, exclusively or chiefly. The merchant, the manufacturer, the wage-earner of every factory town, is directly interested in it, and has a part to perform. There will be no general resumption of business until the industries are back in balance. Manufacturers need not assure themselves that when present stocks are exhausted, orders will come and the industries will revive. There may be spurts of revival, but they will be false starts until the balance is restored. Wage-earners will be mistaken if they think that the matter of wages is wholly between themselves and their employers; the goods cannot be distributed unless prices are within reach of the great mass of the population.

The effect will be the same if the wage-earners are not fairly treated. They should not be asked to take lower money-wages unless retail prices come down, so that the reduced wages will have about the same purchasing power. The problem is to maintain stable relations between all the factors in industry. Public opinion should call upon each to do his fair part.

Everybody must get away from the idea that wages and prices are fixed by arbitrary decrees, or by agreements between employers and employes. Most of our troubles are due to these superficial assumptions. The truth is that there are great economic laws which hold society together, and fix the relations between classes and interests beyond the power of agreements or legislation to change them. The power to create confusion and to delay readjustment of course exists, but nobody is likely to gain anything by that policy.

Every Industry Should do its Part in Readjustment.

There are great industries, dealing with the farmers, which are taking the position that they are unable to reduce their costs and therefore cannot see their way to reduce their selling prices. If this is because they dislike to propose wage reductions to their employees, it is a mistaken view, for they cannot hope to give full employment unless they can maintain sales. The employes are entitled to know this, and probably know it already. If it is because they have large inventories of high cost supplies upon which they do not want to take losses, they are in the same position as the farmer who must sell a high-cost crop on a low-price market. It must be said to them as is said to the farmer, that it is not past costs but future costs that must govern prices now. Replacement costs are the ones to be considered. What can a new competitor in the field, who starts with a new stock, or with materials bought at the new price level, afford to do? What can each man afford to do as his part of getting industry back to settled, normal conditions?

The time has come for a new study of costs. We have suddenly come back to the old situation, where the producer does not name his price, but learns the price at which the market will take it, and sets himself to the task of supplying it at that figure and at a profit. While the terms are not as easy and agreeable as those that have been prevailing in recent years, they are more conducive to economy, good management and progress in industry.

Prospects for Recovery.

The answer to the question, when will recovery come, is that it will come when everybody gets ready to do his part in the readjustment. When everybody gets over thinking that he can enjoy low prices at the expense of others and high wages or high prices for himself, the situation will begin to improve. But the economic law will not be deceived or trifled with. The situation is going to mark time until there is general recognition of the fundamental condition of prosperity; industry must be brought into balance.

We would repeat that the greatest opportunity for starting industrial activity is in construction work, and particularly in housebuilding. Every city and town needs houses, but

here, as everywhere, the essential condition is faced. Costs must come down far enough to protect the investment. People will not build houses, any more than they will make goods, or grow crops, unless costs come down to a point where they believe the product will be worth what they have expended upon it. If they think houses will be cheaper to build next year than this year they will not build this year. Periods of depression last until such questions are settled. When there is a concensus of opinion that prices have fallen about as low as they will fall, and when in each industry they seem to be in line with prevailing prices in other industries, conditions are right for the forward movement. When the forward movement is started, a general advance is likely to take place as sentiment changes and demand in all lines improves, but the general decline is necessary to restore confidence.

It is important to avoid both over-confidence and undue pessimism. The country is going to recover and go ahead as in the past, but it will recover far more rapidly if everybody understands the necessary conditions.

Unemployment can be quickly overcome if the country will go ahead with the great amount of construction work that is needing to be done. We have it on the authority of the Bureau of Public Roads, Department of Agriculture, Washington, D. C., that there have been recently voted $540,000,000 of State Highway bonds and $360,000,000 of County Highway bonds in the whole country. This $900,000,000 worth of work will all be expended for labor, and will be available as soon as the bonds can be sold. The amount of railroad work needing to be done is far in excess of that. Then there is the need for house-building, the opportunity for power-development under the new Federal act, and a great variety of construction required to make good the deficit in such improvements during the war. But nobody need imagine that this work will go ahead upon the present level of costs.

Current Business Affairs.

Retail trade has held up very well, in view of conditions, holiday business being good. Bank payments for the week ended December 22 were less than 5 per cent below those of corresponding week last year, when the price level was higher.

Bradstreet's report of business failures shows 1,085 in November, with liabilities of $40,751,000, against 429 in that month of 1919, with liabilities of $8,566,000. Dun makes a similar report, showing largest liabilities in recent years. The number of insolvencies, however, is not surprising or alarming, in view of the great decline of values. The business community is standing the strain remarkably well. The next few weeks will be cleaning-up time, and a good many weak houses will probably have to liquidate, but it is believed that nothing of great importance will develop.

The stock market passed through another period of liquidation in December, influenced by pessimistic views of the business situation and of corporation earnings. As a general thing quotations are very low, as compared with invested values and past earning power, and at the close of the month there were evidences of investment buying. With the interest rates ruling of late, and which seem not likely to be increased, there seems to be no reason why the market should go lower. The general credit situation is discussed elsewhere.

Situation of the Railroads.

Railroad shares have lost practically all that they gained in the market from the passage of the Esch-Cummins act and the advance of charges. This reaction, however, seems to be in sympathy with general sentiment, and prompted by fear of declining traffic, rather than by a view of permanent conditions. Earnings are not up to the 6 per cent contemplated by the new law, but they are adversely affected by the refusal of state authorities to bring intrastate rates into line, and this will be overcome eventually by Federal authority. Important economies will be gradually accomplished, as the managers get operating expenses more fully in hand. Coal is one of the chief items of expense, and this is in the way of some reduction, while supplies generally will be cheaper with the fall of prices.

The worst thing done to the railroads by government management was the standardization and regulation of the pay of employes. All roads over the country were brought to the same rates. Wage rates in other industries are not the same over the entire country, nor are the costs of living the same. President Todd, of the Bengor & Aroostook, a local road in Maine, upon which wages corresponded with pay in other industries of that locality, stated recently that its payroll at present showed an increase of 189.72 per cent over 1914. Even worse than the standardization of rates was the placing of all railroad shops on a straight time-work basis, completing the wage-system to the government model. Of course, efficiency has fallen off, and the cost of shop work has increased until the companies are having as much of their work as possible done in private shops, and saving money by it. If any one condition is more essential than another to efficiency and progress in industry, it is that pay shall be based as closely as possible upon work done.

Since the troubles with labor have been settled the railroads have fully vindicated the action taken in returning them to the owners, having handled more traffic than in any previous period of their history.

The coal situation is rapidly improving, owing to better car service with resulting increase of production and some diminution in industrial consumption. As the available supply becomes adequate, prices of course become normal, as with everything else. Proclamations against profiteers and price regulations are of small consequence so long as there is not coal enough to go around and competitors are determined to outbid each other for the scanty supply. More words and paper have been wasted in trying to prove the contrary than on any other simple economic proposition. There is no remedy for high prices like greater production.

Construction Work.

Construction work of all kinds has slackened, influenced by the belief that costs will decline. The demand for lumber is very quiet, and substantial reductions have been made in wholesale prices. Reports from the South say that many mills have closed down and the remainder are running generally on half time. The only branch of the timber industry said to be active is railway ties, which are wanted for replacements. Wage rates are being lowered. The West Coast timber and lumber industry is very dull and prices have fallen off sharply. The increase of rail freight charges is making it more difficult for Pacific Coast producers to reach their eastern markets.

The hardwood markets are affected not only by falling off in construction but by dull trade prospects for automobiles, farming implements, furniture, vehicles, musical instruments, etc. Hopes have been entertained about the export trade, and from the Memphis district there is talk of the placing of a very large order (50,000,000 feet), but the exchange situation presents a serious obstacle. Prices have fallen as low as they can go without a reduction of costs, and most of the hardwood mills are closed.

The railroads have not been ordering equipment at the rate expected of them when they were granted their rate increases, but the credit situation has been unfavorable and they are indisposed to increase their capital investments at the present level of costs.

The iron and steel industry has been slackening rapidly in the last month, and war wage rates are being slashed about 20 per cent by the independent companies, although the United States Steel Corporation has made no announcement as yet.

Credit Conditions.

Money rates have not varied much in the last month. The amount of money loaned in the call market has been very much reduced in the past year, but the amount available has met the demand of late at about 7 per cent, dropping occasionally to 6 per cent. Time money upon collateral security has been slightly easier, commercial loans about the same.

The general credit situation has changed but slightly upon the surface. The earning assets of the Federal Reserve banks aggregated $3,333,792,000 in the first statement of the month and $3,281,039,000 on the 24th. Corresponding to the latter last year, the amount was $3,080,495,000. The New York Reserve bank had earning assets on December 24 of $1,084,219,769, and in the corresponding week of last year, $1,048,160,000.

Although the totals vary so little, a great shift of funds has been going on in the last six months. A very considerable amount of liquidation has been going on in the eastern territory and in the commercial centers of the whole country. Merchants have been selling down their stocks and buying only as necessary; the industries have been slowing down and avoiding the purchase of materials. But the credit released in these quarters has been transferred to the agricultural districts. The up-state banks of the New York district have reduced their borrowings of the Reserve banks, and the number of them now borrowing is much less than last May, but the New York city banks have increased their borrowings, to to be able to assist their bank correspondents of the West and South who have been hard-pressed by their farmer patrons.

Services of the Reserve System to Agriculture.

It is strange how persistent is the idea that the banking system has not served the wants of the farmer, although in every part of the country it has been straining itself in his behalf. We gave last month a showing of the loans of the Reserve bank of Chicago in the state of Iowa. Senator Carter Glass, formerly Secretary of the Treasury, during a discussion in the Senate on December 13, set forth the increase of re-discounts in the districts where the agricultural interests are dominant, as follows:

> This talk about the drastic curtailment of credit and the contraction of credits and currency has no foundation in fact. Let us see what are the facts as opposed to the theories.
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> The Richmond Federal Reserve Bank, is so far extended in its credits as that it, as other banks in the agricultural regions, had to avail itself of that provision in the law which permits one Federal Reserve bank to rediscount its paper with other Federal Reserve banks. Whereas the Richmond bank had outstanding rediscounts to the extent of $99,000,000 on November 20 of last year, this year it has rediscounts amounting to $122,000,000. There is an expansion of credit to the extent of $23,000,000.
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> Take the St. Louis Federal Reserve bank, responding to the requirements of that other great tobacco-growing section of Kentucky, with a branch in Louisville. There has been no contraction of credits or of currency in the St. Louis district. On the 20th of November of last year its rediscounts amounted to

something like $64,000,000; on the 20th of November of this year they amounted to $134,000,000, an excess of credits over last year of $70,000,000.

Take the Atlanta bank, situated in the cotton belt, and let us see if there has been any drastic curtailment of credits or currency there. The Atlanta bank had loaned in November of last year $108,000,000; in November of this year $180,000,000, an increase of $72,000,000, or 80% in the expansion of credit.

Take the Federal Reserve Bank of Dallas, in the cotton belt. Last year it was rediscounting $44,000,000. On the 20th of November this year, it was rediscounting $104,000,000, more than 100% expansion and not one dollar of contraction.

Take the Federal Reserve Bank at Chicago, in the great cattle and grain growing region of the country. Its rediscounts last year were $234,000,000, and its rediscounts of the 20th of November of this year were $455,000,000, an increase of $221,000,000.

At Minneapolis, in the grain-growing and flour section of the country, the rediscounts advanced from $54,000,000 last year to $112,000,000 this year, an increase of over 100%, an increase of $58,000,000.

And so on, down the list. The Bank at Kansas City on November 20 of last year had rediscounts amounting to $98,000,000 and on the 20th of November of this year it had rediscounts amounting to $146,000,000, an increase of $48,000,000.

At San Francisco the rediscounts last year on November 20 were $93,000,000, and this year, on November 20 were $154,000,000. There has been no drastic curtailment of credits or of currency there.

Loans to Farmers.

Senator Gronna, Chairman of the Senate Committee on Agriculture recently addressed a letter to Governor Harding of the Federal Reserve Board, asking for specific information as to loans to farmers. The latter replied setting forth that it was impossible, with any degree of accuracy, to distinguish among re-discounts and loans to member banks, between those which represented aid to farmers and those for other purposes. When a member bank borrows on government bonds the loan may not be for the purpose of buying the bonds; more likely it is for the purpose of making loans to its customers, and they may be farmers or of other pursuits. Governor Harding's reply, however, showed that comparing the amounts of strictly agricultural and live stock paper, as classified by the Federal Reserve Act, having more than 90 days to run, the loans rediscounted by the Federal Reserve banks in the full year 1919, aggregated $729,266,000, and for eleven months of 1920, to December 1, aggregated $1,980,063,000.

Governor Harding stated that these figures were far from showing the total loans to farmers or that were of assistance to farmers. A member bank may re-discount commercial paper and lend the proceeds direct to farmers, or it may lend to merchants, implement dealers and other business men, to enable them to carry farmers' obligations instead of forcing collections. The increase in the aggregate of loans in territory where agriculture is the chief industry, is the best indication of banking service to that interest. Even that is incomplete however, as the New York Reserve bank is not reported as having made any loans for agricultural purposes, although it has been lending heavily to the member banks of New York City, who have been thereby enabled to lend to correspondent banks in agricultural sections.

The Shrinkage of Deposits.

One fact which is commonly overlooked in criticising the member banks for asking the reduction of loans, is the reduction of deposits that has taken place. The same reasons which have been prompting people to borrow of late have also caused them to draw down their deposits. They have current bills to pay, and must sell something, check against money in bank, or borrow. Some of the leading agricultural states apparently have not been selling products enough to pay for their current purchases outside. As a result the banks have been steadily losing deposits, which of course curtails their lending power, and to avoid forcing the collection of their loans they have been borrowing of the Reserve banks and correspondent banks outside.

The lending power of a bank is mainly in its deposits. Nobody would expect a bank of $500,000 deposits to lend as much as a bank of $1,000,000 deposits, but there are hundreds of banks that have lost from 25 to 50 per cent of their deposits in the last six months, and people think they ought to lend as much money as before.

The Proper Function of a Bank.

A bank of itself does not create wealth. It is not an industry; it does not carry on production, and it cannot of itself supply wealth to the community. It is a receptacle, a reservoir of the floating, liquid, wealth of the community. Its function is to aid production and trade by making this floating wealth more available and more useful than it could be without being gathered together. It is an agency for the more efficient use and handling of the community's wealth, but not for making wealth by any magical method, such as the printing press affords, or by creating deposits through loans. It is important to keep this in mind, because whenever people begin to complain that the banks or the government should make money easy it is time to utter a warning.

Sound banking requires that somebody shall put a dollar of wealth into the bank for every dollar that the bank loans out, and when we speak of wealth we include the paper representatives of the liquid wealth which is moving in trade. The wheat, meats, cotton, lumber, coal, and merchandise of all kinds that are being transferred are creating and depleting bank deposits as they move. It is through them that pools of deposits or lending power, are created. When prices rise the deposits are increased and as prices fall they are decreased. These funds are the basis of the banking business. Deposits that arise in this way represent

real values which may be loaned and shifted about with safety. Remember all the time that if you want the banking business to be kept on a safe basis it must confine itself to funds of this character, received from the public. Whenever the banks begin to create deposits, or money, by manufacturing credit, they are dealing in something unsubstantial, fictitious, and charged with possibilities of mischief.

Function of the Reserve System.

Now, bearing in mind the sound rule of banking, that a bank shall deal only with the funds deposited in its keeping, it is evident that while one bank may be fully loaned up, another may have a surplus, and the first bank may borrow temporarily of the second. The situation is no different from what it would be if the two banks were consolidated. This principle is the basis of our reserve system. A greater degree of flexibility is given to the banking system, by the consolidation of reserves, and the service to the public is better. But it never was intended that the reserve system would violate the fundamental principle of banking, that the public itself should supply the loanable funds. The reserve banks were intended to do for all the member banks what each of the latter banks do for the community in which it is located.

Under the old system, where each bank stood alone, a run on one for cash might easily close it, and thus spread a panic. The reserve bank was intended to serve as a protection against panics in the same way that a reservoir of water serves as better protection for a town against fire than a cistern in each house.

In addition to being simply a depository, however, the reserve bank is authorized to issue currency. This was not intended as an independent means of creating credit, but for the purpose of giving greater facility in handling deposit. There is no fundamental difference, from the standpoint of a bank, between a deposit-liability and a note-liability, and the note-issuing power provides a means by which deposits can be converted into currency. It is a means of protection to the banks.

Limited Powers of Banking.

When it is understood that the banks are properly restricted in their loans to the amount of liquid credits which the public deposits with them, vague criticism because they do not supply credit indefinitely will cease. The banks in one section can be helped out by banks elsewhere who have a surplus, but they cannot manufacture credit without entering upon dangerous policies, nor should the funds so advanced be tied up in such manner that they cannot be recalled for use in handling the current trade where they belong. A banker of an important Western market city, who had made loans freely to local bankers in neighboring territory, recently sent out a letter asking that the loans be repaid in part, as they were needed in carrying on the industries and commerce of that city, which in turn was an essential factor in marketing the crops of the territory. This letter was criticised as a revelation of hostility toward the country districts, and favoritism toward the city industries, a construction wholly unjustified. A banker is under obligations to the customers who provide the funds in his custody, and to make the most equitable and helpful distribution in his power, but it is a mistake to suppose that he has the power to grant credit at will. He can dispose of what the community puts in his hands, so long as the owners leave it with him, and he may to some extent borrow for them, but there his power ends. Each community in the long run, and for the larger part, must supply its own banking funds by means of its production and savings. It cannot expect to withhold its products from market for an indefinite time and go on buying things by means of outside help.

Slow Liquidation.

The situation does not indicate easy money in the near future. The amount of bank credit outstanding is very large, and with low prices for products it will be necessarily slow of retirement. The country will have to adjust itself to the fact that during the period of booming times a great amount of credit was tied up, and that many banks will be in a somewhat unliquid condition for a long time. It would be a dangerous position but for the Federal Reserve banks, but the real wealth and recuperative powers of the country are so great that the frozen credits are not great relatively, and will be only a matter of temporary embarrassment. They do signify, however, that a great many people will curtail their expenditures in order to pay this indebtedness, and that trade will be more or less affected while the process is going on. We have entered upon an economizing, cleaning-up, period. Interest rates are not going to decline much until the member banks are well out of the Reserve banks, and rumors that the latter are about to reduce their interest may be put down as highly improbable.

Agricultural Conditions.

The government's December report on the cotton crop raised the estimate to 12,987,000 bales, and the actual ginnings to December 1 were 10,144,921 bales.

The 1919 crop was 11,420,763 bales. These figures are without linters, which are a product obtained from the seed by the crushing mills.

Mr. Hester, Secretary of the New Orleans Cotton Exchange, estimates the carry-over on August 1, 1920, at 5,086,000 bales.

The government's estimate was higher than expected and influenced prices unfavorably, the decline during the month being about 2 cents per pound. The principal cause has been the low state of the cotton goods trade over the world. The Lancashire mills operating on cotton have been running only 24 hours per week during December, and the situation on the continent has been no better. The Bureau of Markets, Department of Agriculture, reports the result of an inquiry into the cotton goods industry in Germany, the result of which was not very encouraging. Pre-war consumption of cotton was about 1,800,000 bales, and loss of Alsace-Lorraine reduces capacity about 13 per cent. This, of course, does not signify an actual reduction of demand. The industry now works 8 hours instead of 10, and the maximum capacity is estimated at 1,200,000 bales. The purchasing power of the home market is low, export business has not been recovered, there is a shortage of fuel, and "it is not safe to estimate that, even with American credits, the maximum consumption can be over 700,000 bales."

Move to Curtail Acreage.

The movement for a curtailment of acreage for the next crop is being pressed actively, even to the extent of calling upon bankers to withhold credit from farmers who refuse to cut their planting by 50 per cent. If the cost of growing the cotton crop does not decline to correspond with the price the acreage no doubt will be naturally reduced, without any such arbitrary measures. No doubt costs will decline, and the entire business community should interest itself in having them reduced. It is to be considered that most of the carry-over in years since 1914 has been due to the 16,000,000 bale crop of that year, and that since then production and consumption have been fairly well balanced, notwithstanding the isolation of central and eastern Europe. A considerable portion of the carry-over is of poor quality. Finally, the great variation in yield is illustrated by the crop of this year, which in June was not expected to make over 10,000,000 bales. If the acreage should be halved and the crop be light, supplies would be inadequate, and the consuming public is not going to be in position to pay extremely high prices. It will go without in preference. One of these years the demand is going to come back, and the people who are ready to supply it will be well rewarded.

The wool markets of the world are stagnant, and the auctions both of wool and woolen goods during the month have realized lower prices. A purchase of between two and three million pounds is said to have been made by a large worsted mill at 35 to 45 cents, for quarter to three-eighths blood, clean basis. A line of South Americans is reported sold at 20 to 21 cents in grease, which would have brought 60 cents a year ago. A curious divergence of policy within the British empire is exhibited by the fact that while the Prime Minister of Australia has declared that even in their need of markets they will not sell wool to Germany, while the government of the Union of South Africa has sent a commissioner to Germany to negotiate for the sale or exchange of wool.

Grains, Live Stock and Dairy Products.

The market for all the grains has held its own or improved a little during the month. Wheat has fluctuated nervously with the reports of export purchases and of sales by Argentina and Australia, but has risen from the low, about $1.52 for December in Chicago, to around $1.70. Receipts in primary markets, particularly the Southwest, are approaching more nearly to normal, but cash wheat has commanded liberal premiums. The Chicago report of December 24 said:

> No. 2 red on track here sold today at 38 cents over the December, an advance of 3 cents over the previous day's nominal finish, and the best premium on the crop.

The December delivery on the same day was 10 cents over May, which shows a continued reluctance to own wheat toward the end of the crop year.

Bradstreet's report of exports of wheat, including flour, from the United States and Canada from July 1 to December 16 was 229,456,372 bushels. For the months, July to October, the exports of wheat and flour from the United States alone were of the aggregate value of $409,393,332, against $194,115,327 in the corresponding months of 1919.

The total amount of wheat available for export from the United States and Canada for this crop year has been estimated at about 400,000,000 bushels, but the greater part of what has gone has been from the United States. It is about six months until new wheat becomes available. So long as there is free movement of wheat between the two countries the combined stock is a common supply, but if we should sell more than we can spare, and a duty should be placed on importations, of course prices in this country would be violently affected. This is the possible joker in the situation, as some people think that a large share of our remaining stock is already sold for export.

Live stock has been marketed heavily and values have given way further during the past month. Hogs have reached the lowest figure since the spring of 1916, selling in Western markets between $9 and $10. This market improved a little in the last half of the month.

Cattle were in lighter supply, but the offerings were common, and the bulk have been going at $8 to $11 per cwt. Sheep market has been erratic, and at prices of 1916.

Butter is about 20 cents per pound lower than a year ago, and storage supplies are coming out at a loss to holders of about 10 cents per pound. Eggs have made a profit, but owing to the mild weather of December have declined in value. Supplies in storage are light and prices may go higher.

Remedies for Low Prices.

The Congress came together at Washington with a very keen appreciation of the losses suffered by the farmer, and a desire to do something forthwith for his relief. This spirit is praiseworthy, but there is always danger that action taken under the spur of seeming necessity may be injurious rather than helpful.

The proposal to impose new tariff duties upon a list of farm products apparently has not been studied in all effects. The advocates seem to have thought no farther than that as a matter of course it was not desirable to have any farm products brought into this country, without regard to our general trade relations with other countries. Canada would be the country probably most affected by such action and we have referred to the Canadian situation before. In the first ten months of 1920 our total imports from Canada amounted to $489,187,000, and in this was a considerable amount of agricultural products, notably wheat and cattle. Upon these the legislators' eyes are fixed, to the exclusion of the $841,193,000 of exports from this country to Canada in the same time. Is it sensible to consider the $489,000,000 of imports without thinking of the $841,000,000 of exports? The exports are largely factory products, probably representing more labor, dollar for dollar, than the imports, and that labor consumes agricultural products. There is a general interest in keeping that labor employed at the present time.

Furthermore, we are exporters of wheat and meat products. The Canadian wheat and cattle that come into this country practically go through it to foreign markets, affording some business to our railroads, flour mills and packing houses, en route. If we close these routes they will reach the foreign markets, nevertheless, and affect prices there and here practically as they do now.

Effect Upon Exchange Rates.

Our exports to Canada doubtless would be larger than they are but for the adverse exchange rates, which have been adding 10 or 12 per cent to the cost of our goods to Canadian buyers, and these rates have been due to the one-sided state of trade. It is difficult for Canadians to find the means of making payments in the United States. Excluding their agricultural products will make it more difficult and since the matter has been agitated, and probably as a result of the agitation, exchange rates on points in the United States have risen in Canada to a premium of 16 to 18 per cent.

That we have a right to impose any import duties we please is true, of course, but there seem to be the strongest reasons for believing that our own interests will be served best by intimate trade relations with Canada. Making prohibitory duties is a game that two can play at, but in which neither is likely to make any profit.

We have a promising trade developing with Argentina, but already the news of this proposed action has stimulated a demand there for retaliatory measures. Exchange rates have been against Argentina also, to the extent of 20 to 30 per cent, and this proposal would have the effect of increasing them. Argentina cannot buy of the United States unless she can pay in her own products.

Italy is wanting to buy cotton in the United States, but the lire, which in normal times exchanges for the dollar on the basis of 19.3 cents, is now worth only about 3½ cents, making purchases almost out of the question. One of the Italian products which may be used to create credits here is lemons, but this bill proposes to raise an obstacle to lemons.

Denmark has been sending some butter to this market, probably a temporary movement, but it is buying corn and other feed, flour, and cotton, and is also at a disadvantage because buying much more from us than it is selling to us, and paying high exchange rates. It cannot buy of us unless it can use its products in payment.

Australia is sending some wool here, but last month we gave facts showing that the balance of trade in our favor is so large that it has almost brought trade to a standstill.

It is safe to say that every feature of the measure intended to help one domestic industry would injure some other, and that in most cases some branch of agriculture would suffer directly.

Is it worth while to be setting up tariffs that injure and irritate other peoples, and provoke reprisals against our products, when we are selling so much more than we are buying? Are not our exports as well as our imports a subject of interest?

Is there not more to be gained by stability of trade relations than by spasmodic efforts to alter conditions in our favor? Trade relations and industry are demoralized at best, and the confusion is likely to be made worse if all nations create disturbing conditions.. When a horse gets down in the harness, the common

practice is to free him and let him find his feet in his own way. Trade and industry the world over are closely related, and they will find an equilibrium and a general state of prosperity sooner by being let alone than by efforts to tie up its various parts and prevent natural co-operation.

War Finance Corporation, Loans, Etc.

The various proposals for government aid are all open to the objection that the Treasury is in a very decrepit condition in dealing with its own necessities. It is obliged to come into the money market every few months as a borrower, for means to take care of its own maturing obligations, which makes it little less than a joke to talk about it as a resource for other worthy purposes. Here, for instance is the suggestion that the profits accruing to the Treasury from the Federal Reserve banks be set apart as a fund for loans to cattle-raisers. Perhaps something more ought to be done for the cattle-growing industry, which assuredly is important to the country, but just how are the profits of the reserve banks to be rescued from the Treasury deficit? It is a good deal like trying to collect an income tax from a man who has had $100,000 of income from one source and lost $200,000 elsewhere.

It may be well to revive the War Finance Corporation; of all plans proposed this has the greatest possibility of restılts. Not much was done with it when it was functioning, because the law required that paper should come to it with the endorsement of a bank, and commercial banks could not properly tie themselves up in long-time liabilities. The Edge act banks might find it helpful.

Long ago, in the discussions of last year, we expressed the opinion that the European situation was too big for small means or agencies to deal with; in other words that it required a comprehensive plan and a co-ordination of effort that hardly could be obtained without governmental co-operation of some kind. The Financial Conference at Brussels laid down certain rules which should be made the basis of international credits, and the League of Nations has taken action looking to co-operation along the same lines. Countries wishing to borrow should put their houses financially in order, providing by taxation for current expenses, supervising the expenditure of funds provided by loans, etc. It might be that the War Finance Corporation could serve a useful purpose as representing this country in well ordered arrangements with foreign countries. Perhaps its securities would command the most favorable market in this country. But in all considerations of the subject it should be kept in mind that whatever credits are granted must be provided by appealing to the public market. The Government has no funds and the War Finance Corporation has no funds, and the banks have no funds, except as they get them from the public.

The Farmer's Position.

The farmer has had a hard jolt, and it is no wonder if he has been somewhat disturbed. He worked hard for a good crop, did his part faithfully, and then saw the value of it largely disappear before he could get it to market. It seemed to him that he was getting the worst of it, and as he has thought it over he has been inclined to think that he always has had the worst of it. His attitude has been a little belligerent in spots, but not seriously so. Everybody is entitled to a little latitude of expression under such conditions, and the farmer has not abused the privilege. Riotous actions and extravagant utterances are not chargeable to the great body of farmers. The latter are studying the situation with a view to constructive policies, but they are going on with the work of growing crops. Cotton growers are planning to curtail the acreage, and no doubt it will be done to some extent, but any plan for general curtailment of crops raises the question of what a farmer will do with his land and how he will make a living. The investment is too great to stand idle. Of course he will set himself rigorously to reduce the cost of the next crop. With the conditions likely to prevail in the industrial centers, much of the labor which has left the farms in recent years probably will be going back, and perhaps more with it, and at terms within the farmer's reach. The natural law always has a way of restoring the equilibrium when it has been disturbed, and the people who have been worrying about the movement of labor to the cities may take comfort in the demonstration that things do not run one way all the time. Nature's ways are a little abrupt and inconsiderate at times, but she will not be denied.

Nobody Has a Monopoly of Trouble.

When the farmer is disposed to think that his own lot is the worst of all, he will do well to note that the people of every occupation are in the habit of claiming that distinction. They all have a very keen sense of their troubles. Fathers as a rule say that they do not want their sons to follow in their trade or line of business—almost anything else will be preferable.

The farmer gets so much bad advice and misinformation that it would be strange if he did not ocasionally get erroneous ideas; for instance, the theory that everybody but the farmer can fix the price of his product: that it is simply cost, plus what the traffic will bear. Of course that theory is not within speaking

distance of the facts in ordinary times. The great body of business men are in a constant struggle to make ends meet—harassed and perplexed by uncertainties—and many fail of success.

We have seen recently an editorial comparing agriculture with the oil industry, to show how much more certain and stable were the returns of the latter than the former—and it was not an attempt at satire! If any thing has been typical of risky adventures it has been the oil industry. As in gold mining, there have been enough lucky strikes to keep thousands working and investing without returns. Nor have the prices of oil been stabilized. It is only five or six years since the developments in Oklahoma nearly swamped the industry. The phenomenal development of the internal combustion engine and of the use of oil as fuel, with high prices for coal, have kept demand up to supply in the last few years.

The steel industry has been cited also as an example of one stabilized upon a basis of certain profits. But the steel industry has been notoriously a prince or a pauper, and the present price of steel stocks indicates that it is not expected to have a different career in the future. Even if prices are stabilized, which except within limits is a doubtful policy, it does not signify that profits are stabilized, although a prudent management may withhold from distribution in good times in order to continue dividends in bad times. The best class of farmers accumulate enough fat in good years to go through the bad ones comfortably.

Farmer Not the Only Loser.

If the farmer will take a look over security prices he will disabuse his mind of the idea that he alone has taken losses from this reaction, or that Wall Street is the gainer by it. The shrinkage of values suffered by rich men runs into hundreds of millions of dollars, and they are not mere paper losses, but for a great part losses that have been taken under forced sales.

Below we give a list taken in alphabetical order from the market report, of some of the leading corporations of this country in various lines, with the price of their stocks at the highest point in 1920 and the lowest on December 28. The list might be extended to include nearly all the stocks for which quotations are available, and the showing would be similar. Wherever these stocks have been in use as collateral for loans at anything like their former value of course loans have had to be reduced or more security supplied:

	High 1920	Low Dec. 28
Allis-Chalmers Mfg.	53⅞	27½
American Beet Sugar	103¾	37¼
American Can	61¾	22⅝
American Cotton Oil	54⅜	16
American Express	175	120
American Linseed	95	44⅝
American Smelting and Refining	72	29¼
American Sugar Refining	142⅝	88¾
American Tobacco	283	108⅝
American Woolen	165½	55½
Anaconda Copper	66¼	30½
Associated Dry Goods	67¼	18⅝
Atlantic Gulf and W. I. steamship	176½	93¼
Baldwin Locomotive	148⅜	80⅜
Bethlehem Steel	96⅞	50¾
Central Leather	104¾	31¾
Chandler Motor	164¾	59⅝
Chicago, Mil. & St. Paul R. R.	44⅝	25⅛
Cuba Cane Sugar	59⅜	17⅞
Endicott-Johnson Shoe Company	147	48
Fisk Rubber	48	10⅛
General Electric	172	117¼
General Motors	42	13⅜
Houston Oil	116½	60¼
International Mercantile Marine	51⅞	11
International Paper	91¾	43
Kelly-Springfield Tire	152½	31
Lackawanna Steel	91¾	48⅛
Loose-Wiles Biscuit	70	25
Maxwell Motors	38	2⅛
Mexican Petroleum	222	152½
National Enameling & Stamping	89½	45¼
N. Y. New Haven & Hartford R.R	37¼	16¼
Punta Alegre Sugar	120	43½
Republic Iron & Steel	124¾	57⅝
Sinclair Consolidated Oil	48¾	21
U. S. Rubber	143¾	55
U. S. Steel	109	77½
Virginia-Carolina Chemical	80¼	31⅛
Worthington Pump	95¼	40

In the list of stocks which have suffered will be found all the corporations which have figured in the sensational stories about great corporation profits during the war. Those profits were not divided to any important extent. They were used for the most part to enlarge the industries, increasing productive capacity, but the market prices of the stocks indicate that there are no sanguine expectations of large profits from these investments in the near future.

Stabilizing Profits.

The idea that the profits in business may be stabilized was entertained by the Government's price-fixing officials. They assigned to the wholesale grocer a profit of one cent a pound on sugar, which answered the purpose very well as long as prices were rising, but when the price movement turned downward and the price dropped 15 cents per pound and more without recovery the grocers took a staggering loss, for which no provision had been made.

One of the leading meat packers was indicted recently for selling lamb carcasses brought from Australia at prices which on certain individual transactions were said to be in excess of the margin fixed by the authorities. His attorney, Mr. Charles Evans Hughes, in defence pointed out that the packers were allowed a certain average profit upon their business throughout the year, that in dealing with fluctuating values losses from time to time were inevitable, and that they must take advantage of favorable circumstances to make good their losses in order to obtain the average profits.

No business can be conducted successfully without provision for losses, according to the risks that must be carried.

The butter which was put into storage last spring and summer to supply the trade in the fall and winter months is coming on the market now at the rate of about 500,000 pounds per day, and at a loss to the holders of approximately 10 cents per pound. The storage "speculators" if they may be so called, hold the butter at a cost, including insurance and storage charges of not less than 55 cents per pound, New York basis, and it is being sold at 40 to 45 cents per pound, and the losses will aggregate millions of dollars unless the market changes, which is not in prospect. This is occurring in the midst of a nation-wide agitation based upon the assumption that the farmer is constantly exploited by the dealer, and that the latter simply adds a sure profit to the prices he pays for farm products.

In eggs the dealers have fared better this year, the storage having been light. The New York State Bureau of Food and Markets has recently issued a bulletin on egg marketing, which embodies the results of a study by the State Agricultural College of the costs and profits of storing eggs over a period of years from which we make the following quotation:

> A comparison shows that in the years 1910, 1912, 1915 and 1917 the average gross profit was less than the cost of storage; in other words, the persons who stored eggs in these years, taken on the average, lost money on the eggs which they held. During the other years the gross profit of the dealers was more than enough to pay storage charges.
>
> The average net profit made in storing eggs, year in and year out, is not at all excessive, as is so often supposed. During the period between 1907 and 1914, for example, it was only a fraction of one cent per dozen. During the period between 1914 and 1917 it was a little above one cent per dozen.
>
> It is obvious from the data that the business of storing eggs is an extremely hazardous one from a financial point of view. The shrewd dealer who stored eggs in the years 1908, 1911, 1913 and 1916 undoubtedly made very handsome profits. If he was unfortunate enough to store eggs only during the other years he made no money at all, but instead lost heavily. The average dealer, of course, probably had some eggs in storage during all these years, so that in the long run he was able to balance the losses during the bad years by those in the more profitable ones.

A bill is now pending in Congress which proposes that commodities when placed in storage shall have the date marked upon them and the market price at the time, with the purpose of preventing undue profits. Of course this scheme is based upon the same erroneous theory that profits are arbitrarily fixed by the dealer, and may be standardized. But who knows how much profit a dealer should have upon eggs in any given year to make a fair average over a term of years, and if nobody knows why attempt to regulate it? The evidence furnished by the New York State Agricultural College shows that in the years from 1907 to 1917, when the dealer was allowed to make all he could, he got none too much.

The farmer is well within his rights in efforts to improve the marketing system, and should receive encouragement and support in practical measures for that purpose, but nothing will be gained by proceeding from false premises.

Sugar Importations.

There has been no better illustration of the operations of the law of supply and demand than that supplied by the sugar market in 1920.

Statistics now available show that for the ten months ending with November the receipts of sugar from foreign countries and the Philippines amounted to roundly 3,500,000 tons (of 2,000 pounds each) as compared with 2,912,000 tons in the corresponding period of 1919 and 2,235,000 tons in the same months of 1918. Deducting exports in each case, we have net receipts of over 3,000,000 tons for the first ten months of 1920 against 2,347,000 tons in 1919 and 2,136,000 tons in 1918. In other words the supply has been 835,000 tons greater than for the first three-quarters of 1919 and over 1,000,000 tons more than in 1918. This is an amount sufficient to supply 16 pounds per capita more than in 1919 and 20 pounds more than in 1918.

Was there no reason for the rise of prices during the forepart of the year? Yes, there was. The supply of sugar for this country in the past has come entirely from our own production and that of Cuba, and supplies from both of these sources were known to be short, and did in fact fall off. The world supply was short, and it was not supposed that we could draw from other fields. Of course, with a proper regard for the needs of the world, we should have reduced our consumption; that is the only way to keep down prices when supplies are short, but the American people had little notion of doing that. It was often said as evidence of no shortage that plenty of sugar was to be had by those willing to pay the price; but the rising price caused somebody to go without. They were bound to have sugar regardless of the shortage, and a great rise resulted. The lure of these prices was sufficient to attract sugar from every part of the globe. Countries in which a serious undersupply of sugar existed depleted their meagre stocks in order to share in the golden harvest offered by the United States. Countries that previously had imported refined sugar from the United States returned it at a handsome profit. Practically every country that had any quantity of sugar available apparently started it on its way to New York, New Orleans or San Francisco. The apparent

willingness of American consumers to pay fancy prices threatened to drain the entire world of sugar. It would have had this effect if the price levels of late spring and early summer had been maintained.

Refined sugars which had been sold to Belgium, France and other European countries at nine cents a pound were returned to the western side of the Atlantic and sold at double the original price. Java sugars were diverted from their course toward European and eastern markets to American ports. Mexico, Central and South America, and even far off Mauritius and British South Africa, sold sugar in New York. Until this excess supply can be absorbed congestion, stagnation and low prices must continue to rule the sugar market.

It is worth while to note one unexpected effect of the government's regulation of dealer's profits. It disturbed the balance between the buying and selling forces in trade. The dealers no longer had anything to gain by trying to buy cheap, as they had a fixed profit per pound. Their sole interest seemed to be in volume of business. Their restraining influence upon producers' prices was lost, and the market went practically into the hands of the Cuban producers, until old world sugar was attracted by the phenomenal prices. The situation illustrates how governmental interference frequently has unexpected results.

A further result of the limitation of profits, as seen in the case of the refiners was that some refiners ceased to buy raw sugar and did the refining for Cuban producers under toll contracts, the producers putting the refined sugar on the market.

Cancellations.

Violent price fluctuations always put traders to a severe test and many unpleasant revelations about people of previous high standing have been made by themselves in recent weeks. And on the other hand the man who "will stand without hitching," and whose "word is as good as his bond," stands out more honored and respected than ever.

The whole industrial situation has suffered a much more intense degree of demoralization as a result of the epidemic of cancellations. The decline of prices has been more precipitate, the cessation of industry has been more abrupt, the alarm and shock have been greater, and the ill effects have been intensified, with greater losses all around. There has been little warning for anybody, for the most prudent business methods avail nothing where there is widespread repudiation of obligations.

In the long run everybody is interested in maintaining honest and fair business practices. The modern business organization is very complex and of necessity its daily transactions are largely based upon good faith. It is impracticable to have all the common transactions of purchase and sale under the formality of legal contracts, but the whole business structure is dependent upon regularity in methods and upon a general observance of obligations, as all parties to them intend when they are entered upon. There can be no security in business otherwise, and the persons who disregard their obigations in a time of crisis are contributing to a general state of disorder which may cost them greater losses than the ones they are trying to escape.

Contracts Should Be Lived Up To.

The question of whether the holder of a contract, made in good faith, shall insist upon its performance is more than a matter of self-interest. The holder, who, weakly or from motives of policy, fails to stand for a sound principle when general demoralization of business morale is threatened, contributes to that demoralization almost as much as the offenders. Honorable standards in business life will not be maintained unless somebody fights for them.

In a situation of this kind personal influence and the power of example go a great way. If one man flinches, another will, soon it is reported that everybody does, and then it seems unfair that any one should be expected to make his word good. Custom makes standards of conduct. A delinquency of one kind provokes others, as in the case of reprisals in war. It is said that when goods were advancing orders on contracts sometimes had to wait while goods were sold at higher prices. Such practices are dishonorable, but the remedy is not in other acts tending to lower the standards, and increase the demoralization.

American exporters complain that foreign buyers in some cases are not living up to their obligations, but the charges are not all on one side. These are times when men are making reputations that will stay with them as long as they live and their houses after them, and which involve the good name of the country to which they belong. The possible gains of doubtful practices are not much compared with all that is involved. The right course is the one which if followed generally will give stability to business and protect the honest trader.

The Bond Market.

Although the December liquidation in the security market has resulted in a lower price level than existed a month ago, there apparently has been no tendency to sacrifice sound bonds. In view of a necessarily small buying power at this time, bonds have offered strong resistance to a general selling pressure.

The par amount of bond transactions on the New York Exchange so far this month is far below that of a year ago and consists largely of dealings in Liberty Bonds. Private investors and institutions are loath to dispose of conservative investments at existing prices.

The last tax instalment, which was due December 15th, undoubtedly hastened liquidation in some quarters. The chief sufferers from this cause probably were the various Liberty issues. However, the buying for the 2½ per cent sinking fund and a good investment demand have resulted in brisk rallies in the Liberty market from time to time.

The Treasury Department announced a new issue of $500,000,000 (or thereabouts) United States Certificates of Indebtedness, dated December 15, 1920. One-half of these Certificates mature June 15, 1921 and bear interest at the rate of 5¾ per cent, while the balance mature December 15, 1921 and bear interest at 6 per cent. This issue was for the purpose of refunding a portion of the $703,000,000 4¾ per cent Certificates which matured December 15. The Secretary of the Treasury reported total subscription to this offering of $790.449,050 of which $412,866,000 came from the New York district alone. The latter's participation was cut down to something like $266,907,000.

December Offerings.

New offerings have not been as numerous as in recent months. Wide interest was manifested in the financing of two Standard Oil Companies as follows:

$25,000,000 Standard Oil Company (California) 10 year 7% Gold Debentures, at 100 and interest.

$30,000,000 Standard Oil Company (New York) 7% Serial Gold Debentures, due January 2, 1925 to 1930, price 100 and interest.

These issues which were offered within a day of each other were very rapidy absorbed. Other important industrial financing during the month included

$12,500,000 Virginia-Carolina Chemical Company 12 year 7½% Debentures, at 96¼ and interest, to yield about 8%.

$4,000,000 Fleischman Company, New York, 8% 10 year Gold Notes, at 100 and interest.

$8,000,000 Cerro de Pasco Copper Corporation 10 year Convertible 8% Bonds, at 100 and interest.

The municipal bond market has changed but little during the month. Prices are firm and the demand is fair. Among the more important new issues were

$10,000,000 Province of Ontario 15 year 6% Bonds, price 94.34 and interest, to yield 6.60%.

$2,980,000 City of Minneapolis, Minn. 5% Serial Bonds, at prices to yield from 5.75% to 5%.

$7,000,000 City of Philadelphia 50 year 5% Bonds, price 102 and interest, to yield about 4.88%.

$3,465,000 City of Pittsburgh Serial 5% Bonds, at prices to yield about 4.80%.

$847,000 City of Jersey City, N. J. Serial 5½% Bonds, at prices to yield from 5.75% to 5.05%.

Public utility financing included

$10,000,000 Pacific Gas and Electric Company 1st and Rfg. 20 year 7% Bonds, at 99 and interest, to yield about 7.10%.

$25,000,000 Consolidated Gas Company of New York 1 year 8% Notes, at 100 and interest.

$5,000,000 Brooklyn Edison Company, Inc. Gen'l Mtgs. 20 year 7% Bonds, at 97⅜ and interest, to yield about 7¼%.

$4,000,000 Niagara Falls Power Compan 1st and Cons. Mtge. 6% Bonds, due November 1, 1950, at 87½ and interest, to yield over 7%.

The first important public offering during the month of railroad securities was made on the morning of the 27th in the form of $4,500,000 Atlantic Coast Line Railroad 6½ per cent Equipment Trust Gold Certificates, Series D, due serially from 1922 to 1936, at prices to yield 7 per cent for the first five maturities; 6¾ per cent for the second five maturities and 6⅝ per cent for the last five maturities.

Realizing Losses.

We have several inquiries prompted by the newspaper reports of the selling of securities for the purpose of realizing losses which will count in income reports. The prevailing opinion seems to be that the government is defrauded.

To illustrate the effects of such sales let it be supposed that a person owns 500 shares of stock which cost him $100 per share. If the market price rises to $120 and he sells one-half he will have a profit of $5,000, which he must report for taxation. Later, perhaps, the stock may decline to $80, when, if he sells the remaining 250 shares he will realize a loss of $5,000, which he is entitled to report in his income statement.

The sale, if a bona fide one, is proof of the market value at the time, and if the stock should never recover in price the loss clearly would be a real one, entitled to a place in the income statement. But if it does recover the owner will be in the position of owning the stock at a lower cost than before, and if he sells will have a larger profit to report for taxation. In the case cited, if the stock rose from $80 to $100, the original cost, after the repurchase, and he sold at the latter figure, he would have a profit of $5,000, and the government would get the revenue lost by the original sale. In short, if the loss indicated by the realization sale proves to be not a real one, the settlement with the government is only postponed.

Dealers in securities are permitted to inventory them at market value, at the end of the year, like dealers in merchandise, and if other owners were permitted to do the same there would be no sales for the purpose of actually demonstrating losses.